

**REPORT OF THE AUDIT OF THE
BELL COUNTY
SHERIFF'S SETTLEMENT - 2009 TAXES**

**For The Period
May 30, 2009 Through April 15, 2010**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE 502.564.5841
FACSIMILE 502.564.2912**

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
BELL COUNTY
SHERIFF'S SETTLEMENT - 2009 TAXES

For The Period
May 30, 2009 Through April 15, 2010

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2009 Taxes for the Bell County Sheriff for the period May 30, 2009 through April 15, 2010. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$5,804,809 for the districts for 2009 taxes, retaining commissions of \$219,437 to operate the Sheriff's office. The Sheriff distributed taxes of \$5,558,982 to the districts for 2009 taxes. Taxes of \$24,419 are due to the districts.

Report Comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Strengthen Internal Controls Over Recordkeeping

Deposits:

The Sheriff's deposits as of December 7, 2009 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$40,353

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Albey Brock, Bell County Judge/Executive
Honorable Bruce Bennett, Bell County Sheriff
Members of the Bell County Fiscal Court

Independent Auditor's Report

We have audited the Bell County Sheriff's Settlement - 2009 Taxes for the period May 30, 2009 through April 15, 2010. This tax settlement is the responsibility of the Bell County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Bell County Sheriff's taxes charged, credited, and paid for the period May 30, 2009 through April 15, 2010, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated January 12, 2011 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Albey Brock, Bell County Judge/Executive
Honorable Bruce Bennett, Bell County Sheriff
Members of the Bell County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Strengthen Internal Controls Over Recordkeeping

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

January 12, 2011

BELL COUNTY
BRUCE BENNETT, SHERIFF
SHERIFF'S SETTLEMENT - 2009 TAXES

For The Period May 30, 2009 Through April 15, 2010

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 713,999	\$ 834,052	\$ 1,198,721	\$ 770,867
Tangible Personal Property	193,095	172,496	346,745	486,867
Fire Protection	3,205			
Increases Through Exonerations	76	89	127	325
Franchise Taxes	123,677	120,685	322,118	
Gas Property Taxes	102,613	119,866	343,253	110,785
Oil Property Taxes	27,324	31,918	91,402	29,500
Limestone, Sand and Gravel	549	641	1,836	592
Penalties	8,924	10,006	20,392	12,337
Adjusted to Sheriff's Receipt	44	62	111	43
Gross Chargeable to Sheriff	<u>1,173,506</u>	<u>1,289,815</u>	<u>2,324,705</u>	<u>1,411,316</u>
<u>Credits</u>				
Exonerations	8,364	9,566	20,571	8,490
Discounts	14,820	16,510	27,582	19,189
Delinquents:				
Real Estate	37,357	43,526	66,616	40,229
Tangible Personal Property	11,298	10,040	28,513	31,822
Franchise Taxes	<u>20</u>	<u>17</u>	<u>3</u>	
Total Credits	<u>71,859</u>	<u>79,659</u>	<u>143,285</u>	<u>99,730</u>
Taxes Collected	1,101,647	1,210,156	2,181,420	1,311,586
Less: Commissions *	<u>46,820</u>	<u>51,432</u>	<u>65,443</u>	<u>55,742</u>
Taxes Due	1,054,827	1,158,724	2,115,977	1,255,844
Taxes Paid	1,048,118	1,150,933	2,103,923	1,256,008
Refunds (Current and Prior Year)	592	648	897	512
Penalty Due State				<u>678</u>
		**		
Due Districts	<u>\$ 6,117</u>	<u>\$ 7,143</u>	<u>\$ 11,157</u>	<u>\$ 2</u>

* and ** - See Next Page.

The accompanying notes are an integral part of this financial statement.

BELL COUNTY
BRUCE BENNETT, SHERIFF
SHERIFF'S SETTLEMENT - 2009 TAXES
For The Period May 30, 2009 Through April 15, 2010
(Continued)

* Commissions:

4.25% on \$ 3,623,389
3% on \$ 2,181,420

** Special Taxing Districts:

Library District	\$	3,426
Health District		2,101
Solid Waste		<u>1,616</u>

Due Districts	\$	<u><u>7,143</u></u>
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BELL COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Bell County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

BELL COUNTY
 NOTES TO FINANCIAL STATEMENT
 April 15, 2010
 (Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of December 7, 2009, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$40,353

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2009. Property taxes were billed to finance governmental services for the year ended June 30, 2010. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 19, 2009 through April 15, 2010.

Note 4. Interest Income

The Bell County Sheriff earned \$6,785 as interest income on 2009 taxes. The Sheriff owed \$1,289 in interest to the school districts and \$1,849 in interest to the fiscal court.

Note 5. Sheriff's 10% Add-On Fee

The Bell County Sheriff collected \$36,627 of 10% add-on fees allowed by KRS 134.119(7). This amount is to be used to operate the Sheriff's office. The Sheriff owed \$24,015 in 10% add-on fees to his fee account.

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts

The Sheriff should deposit unrefundable and unexplained receipts in an interest-bearing account. The Sheriff's escrowed amounts were as follows:

2004 Taxes	\$731
2005 Taxes	\$208
2004/2005 Unmined Coal Taxes	\$1,949

According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned and abandoned funds are required to be sent to the Kentucky State Treasurer by KRS 393.110.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Albey Brock, Bell County Judge/Executive
Honorable Bruce Bennett, Bell County Sheriff
Members of the Bell County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Bell County Sheriff's Settlement - 2009 Taxes for the period May 30, 2009 through April 15, 2010, and have issued our report thereon dated January 12, 2011. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bell County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations to be material weaknesses.

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Strengthen Internal Controls Over Recordkeeping



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bell County Sheriff's Settlement - 2009 Taxes for the period May 30, 2009 through April 15, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Bell County Sheriff's responses to the findings identified in our audit are described in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Bell County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

January 12, 2011

COMMENTS AND RECOMMENDATIONS

BELL COUNTY
BRUCE BENNETT, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period May 30, 2009 Through April 15, 2010

INTERNAL CONTROL - MATERIAL WEAKNESSES:

The Sheriff's Office Lacks Adequate Segregation Of Duties

While reviewing the Sheriff's internal control procedures, we identified a lack of adequate segregation of duties over receipts, and disbursements. These control deficiencies are present because one employee's duties include accepting tax payments, recording taxes paid, preparing the daily deposit, preparing monthly tax reports, preparing monthly tax disbursements, and co-signing monthly tax disbursements.

In order to achieve a proper segregation of duties, related activities should be assigned to different individuals. Since budget restrictions may limit the number of staff the Sheriff can hire, it may not be feasible to segregate accounting duties to different individuals. In this situation, the Sheriff should implement compensating controls to mitigate the effects of the lack of adequate segregation of duties. We recommend the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should frequently compare daily bank deposits, daily checkout sheets, and daily tax reports. Any differences should be reconciled. The Sheriff should document his oversight by initializing the bank deposit, daily checkout sheet, and daily tax report.
- The Sheriff should rotate the employee responsible for entering paid tax bills in the computer. The employee responsible for entering this information could be randomly determined without the employee's prior knowledge.
- The Sheriff should compare monthly tax reports and disbursements to a deposit listing. Any differences should be reconciled. The Sheriff should document his oversight by initializing the listing of deposits.
- The Sheriff should require an employee that does not accept tax payments to prepare the bank reconciliation. The Sheriff should compare the bank reconciliation to the balance in the checkbook and any differences should be reconciled. The Sheriff should document his oversight by initializing the bank reconciliation and the balance in the checkbook.

Sheriff's Response: We will make every effort that we can to segregate duties in the Sheriff's Department Tax Office.

BELL COUNTY
BRUCE BENNETT, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period May 30, 2009 Through April 15, 2010
(Continued)

INTERNAL CONTROL – MATERIAL WEAKNESSES (Continued):

The Sheriff Should Strengthen Internal Controls Over Recordkeeping

While performing the audit, we noted daily checkout sheets were not prepared for franchise, gas, oil, or limestone, sand and gravel collections and monthly bank reconciliations were not retained. The Sheriff's office properly batched receipts daily and a calculator tape listing the amount collected per bill accompanied each batch; however, total collections were not recorded on a daily checkout sheet. The Sheriff's bookkeeper states these batches were used to perform monthly bank reconciliations; however documentation of the monthly bank reconciliations was not available. It appears the lack of daily checkout sheets and written bank reconciliations allowed the following to occur and not be detected in a timely manner:

- Commission payments to the fee account were not made in a timely manner. We noted no commissions were paid to the fee account for regular or gas collections made in March, or franchise collections in October, January, and March. The disbursements for February commissions for regular, gas, and oil were made on March 3rd; however, these checks were not deposited to the fee account until April 29th.
- Add-on fees were not paid to the fee account in a timely manner. We noted no add-on fee payments were made for March regular collections, only a portion of April collections were paid to the fee account, and no add-on fees collected on gas and oil taxes were paid to the fee account.
- A regular tax reporting error in December resulted in overpayments to the taxing districts totaling \$102,648.
- An additional \$24,420 is due to taxing districts as a result of audit findings.

KRS 68.210 grants the State Local Finance Officer the authority to establish minimum requirements for the handling of public funds, which includes preparing daily checkout sheets. These daily checkout sheets should be posted to a receipts ledger which is then reconciled to the Sheriff's tax account. Preparation and retention of daily checkout sheets and bank reconciliations document the performance of internal controls designed to prevent and detect reporting errors like those described above.

We recommend the Sheriff strengthen internal controls over recordkeeping by preparing daily checkout sheets for franchise, gas, oil, and limestone, sand and gravel collections. In addition, the Sheriff should retain documentation of monthly bank reconciliations. The Sheriff could further use these documents to implement the compensating controls described in the preceding comment above.

Sheriff's Response: We have written checks in the amounts due based on the audit report. We are preparing daily checkout sheets and bank reconciliations are now being prepared and checks are being deposited in a timely manner.

